

**CITY OF BATTLE CREEK
DIRECT INVESTMENT FUNDS
ADMINISTERED BY
BATTLE CREEK UNLIMITED, INC.**

Battle Creek, Michigan

Financial Statements

**For the Year Ended
June 30, 2008**



REHMANN ROBSON

Certified Public Accountants

**CITY OF BATTLE CREEK
DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



Independent Auditors' Report

December 10, 2008

Honorable Mayor and Members of
the City Commission
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the ***City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc.*** (which consists of an enterprise fund of the City of Battle Creek, Michigan and an enterprise fund of the Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan) as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of Battle Creek Unlimited, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. and do not purport to, and do not present fairly the financial position of either the City of Battle Creek, Michigan or the Battle Creek Downtown Development Authority, and the changes in their financial position and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. as of June 30, 2008, and the changes in financial position thereof and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

FINANCIAL STATEMENTS

City of Battle Creek Direct Investment Funds
Administered by Battle Creek Unlimited, Inc.
Statement of Net Assets
June 30, 2008

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
Assets		
Cash and cash equivalents	\$ 3,706,239	\$ 260,369
Investments	6,561,793	290,201
Loans receivable, current portion, net	250,379	23,162
Accrued interest receivable on loans	72,205	3,321
Due from Battle Creek Unlimited, Inc.	-	946,482
Due from DDA Revolving Loan Fund	277,067	-
	<hr/>	<hr/>
Total current assets	10,867,683	1,523,535
	<hr/>	<hr/>
Loans receivable, less current portion, net	2,055,711	347,927
	<hr/>	<hr/>
Total assets	12,923,394	1,871,462
	<hr/>	<hr/>
Liabilities		
Due to Battle Creek Unlimited, Inc.	3,193,506	-
Due to Battle Creek DDA	-	199,996
Due to Economic Development Fund	-	277,067
	<hr/>	<hr/>
Total liabilities	3,193,506	477,063
	<hr/>	<hr/>
Net assets		
Unrestricted	<u>\$ 9,729,888</u>	<u>\$ 1,394,399</u>

The accompanying notes are an integral part of these financial statements.

City of Battle Creek Direct Investment Funds
Administered by Battle Creek Unlimited, Inc.
Statement of Revenue, Expenses
and Changes in Net Assets
For the Year Ended June 30, 2008

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
Operating revenues		
Income on loans	\$ 425,413	\$ 24,923
Loan fees	163	599
	<hr/>	<hr/>
Total operating revenues	425,576	25,522
	<hr/>	<hr/>
Operating expenses		
Administration	97,500	32,500
Other operating costs	43,777	6,178
Loan loss provision	788,993	96,325
	<hr/>	<hr/>
Total operating expenses	930,270	135,003
	<hr/>	<hr/>
Operating loss	(504,694)	(109,481)
Nonoperating revenues		
Investment earnings	420,097	17,330
	<hr/>	<hr/>
Change in net assets	(84,597)	(92,151)
Net assets, beginning of year	9,814,485	1,486,550
	<hr/>	<hr/>
Net assets, end of year	<u>\$ 9,729,888</u>	<u>\$ 1,394,399</u>

The accompanying notes are an integral part of these financial statements.

City of Battle Creek Direct Investment Funds
Administered by Battle Creek Unlimited, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2008

	Economic Development Fund	Downtown Development Authority Revolving Loan Fund
Cash flows from operating activities		
Loans collected from borrowers	\$ 948,197	\$ 102,749
Interest and fees on loans	411,830	26,907
Loans made to borrowers	(674,833)	(20,000)
Administrative and other expenses paid	(342,178)	(38,678)
Net cash provided by operating activities	<u>343,016</u>	<u>70,978</u>
Cash flows from investing activities		
Purchase of investments	(2,993,400)	(310,366)
Proceeds from sale and redemption of investments	2,674,465	297,055
Investment income received	420,097	17,330
Net cash provided by investing activities	<u>101,162</u>	<u>4,019</u>
Net increase in cash and cash equivalents	444,178	74,997
Cash and cash equivalents, beginning of year	<u>3,262,061</u>	<u>185,372</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,706,239</u></u>	<u><u>\$ 260,369</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ (504,694)	\$ (109,481)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Loan loss provision	1,470,644	116,302
Change in assets and liabilities:		
Loans receivable	(408,287)	5,107
Accrued interest receivable on loans	(13,746)	1,385
Due from Battle Creek Unlimited, Inc.	-	59,519
Due from DDA Revolving Loan Fund	1,854	-
Due to Battle Creek Unlimited, Inc.	(202,755)	-
Due to Economic Development Fund	<u>-</u>	<u>(1,854)</u>
Net cash provided by operating activities	<u><u>\$ 343,016</u></u>	<u><u>\$ 70,978</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. (the “Direct Investment Funds”) consists of the Economic Development Fund, an enterprise fund of the City of Battle Creek, Michigan (the “City”), and the Downtown Development Authority Revolving Loan Fund, an enterprise fund of the Battle Creek Downtown Development Authority (the “DDA”), a component unit of the City of Battle Creek, Michigan. The Direct Investment Funds provide financing to businesses to create and retain jobs in the City and DDA district, respectively.

The net assets of the Economic Development Fund are the property of the City of Battle Creek; the fund was originally created by an appropriation from the City. The net assets of the Downtown Development Authority Revolving Loan Fund are the property of the DDA; the fund was originally created by a grant received by the DDA from the Miller Foundation. Both the City and DDA contract with Battle Creek Unlimited, Inc. to administer these funds.

The accounting policies of the Direct Investment Funds conform with generally accepted accounting principles as applicable to proprietary funds. A summary of significant accounting policies follows.

Reporting Entity - These financial statements present the financial position, changes in financial position and cash flows of an enterprise fund of the City and an enterprise fund of the DDA; both funds are an integral part of the respective reporting entities. The Direct Investment Funds are not a component unit of the City, DDA or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Basis of Accounting - The Direct Investment Funds are separate accounting entities with self-balancing set of accounts used to report financial position, changes in financial position and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

The Direct Investment Funds are operated as enterprise funds, which are used to account for those operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Direct Investment Funds apply all applicable FASB pronouncements issued through November 30, 1989 in accounting and reporting for their proprietary operations, but have elected not to follow subsequent private-sector guidance.

CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.

Notes to Financial Statements

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The operating revenues of the City of Battle Creek Direct Investment Funds Administered by Battle Creek Unlimited, Inc. include interest on loans, loan fees and other revenue. Operating expenses of the enterprise funds include administration, a loan loss provision/recovery and other operating costs. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Deposits and Investments – The Direct Investment Funds' cash and cash equivalents consist of demand deposits. Investments are stated at fair value and consist of U.S. treasury notes and other U.S. government obligations.

State statutes authorize local governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Loans Receivable – Loans receivable consist of balances outstanding from borrowers and are reported net of amounts estimated to be uncollectible.

Net Assets – Restricted net assets, if any, represent amounts that are committed for either approved loan applications or minority lending.

2. DEPOSITS AND INVESTMENTS

Deposits – At year-end, the carrying amount of the Economic Development Fund's deposits was \$3,706,239 and the bank balance was \$3,706,239. Of the bank balance, \$3,606,239 was uninsured and uncollateralized. Also at year-end, the carrying amount of the DDA Revolving Loan Fund's deposits was \$260,369 and the bank balance was \$260,369. Of the bank balance, \$160,369 was uninsured and uncollateralized.

Due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, management evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

Notes to Financial Statements

At year end, the Direct Investment Funds' investment balances were as follows:

<u>Category</u>	<u>Fair Value</u>	
	<u>Economic Development Fund</u>	<u>DDA Revolving Loan Fund</u>
U.S treasuries	\$ 300,843	\$ -
U.S agencies	4,486,741	210,590
Money market funds	1,774,209	79,611
Total investments	\$ 6,561,793	\$ 290,201

Credit Risk. All of the Direct Investment Funds' investments in debt securities of U.S. agencies are rated AAA by both Moody's Investor Services and Standard & Poors. The money market funds were rated AAA by Moody's.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Direct Investment Funds will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Direct Investment Funds' investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Direct Investment Funds' name.

Concentration of Credit Risk. At June 30, 2008, the investment portfolio of U.S. agencies was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>	
		<u>Economic Development Fund</u>	<u>DDA Revolving Loan Fund</u>
U.S. Agencies	Federal Home Loan Bank	25.31%	72.57%
	Federal Farm Credit Bank	16.98%	-
	Federal National Mortgage Association	16.83%	-
	Federal Home Loan Mortgage Corporation	9.26%	-

CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.

Notes to Financial Statements

Interest Rate Risk. As of June 30, 2008, maturities of the City of Battle Creek's Direct Investment Funds investments in debt securities were as follows:

	Economic Development Fund			DDA Revolving Loan Fund		
	Less Than 1 Year	1- 5 Years	Total	Less Than 1 Year	1- 5 Years	Total
U.S. treasuries	\$ 300,843	\$ -	\$ 300,843	\$ -	\$ -	\$ -
U.S. agencies	3,412,691	1,074,050	4,486,741	210,590	-	210,590
	<u>\$ 3,713,534</u>	<u>\$ 1,074,050</u>	<u>\$ 4,787,584</u>	<u>\$ 210,590</u>	<u>\$ -</u>	<u>\$ 210,590</u>

None of the U.S. agencies securities are callable.

The Direct Investment Funds' investment policies are not more restrictive than the investment policies authorized by state statute as listed in Note 1.

3. LOANS OUTSTANDING

Loans receivable outstanding as of June 30, 2008, are summarized as follows:

	Economic Development Fund	DDA Revolving Loan Fund
Total loans outstanding	\$ 2,308,392	\$ 618,267
Allowance for loan losses	<u>(2,302)</u>	<u>(247,178)</u>
Net loans outstanding	2,306,090	371,089
Less amounts expected to be collected within one year	<u>250,379</u>	<u>23,162</u>
Amounts expected to be collected beyond one year	<u>\$ 2,055,711</u>	<u>\$ 347,927</u>

**CITY OF BATTLE CREEK DIRECT INVESTMENT FUNDS
ADMINISTERED BY BATTLE CREEK UNLIMITED, INC.**

Notes to Financial Statements

Loans receivable in the Economic Development Fund include amounts due from Battle Creek Unlimited (BCU) for projects/initiatives it is participating in or properties it has acquired under the auspices of economic development. Because a committee appointed by BCU made these loans to BCU, the loans constitute related party transactions. Following is a summary of the Economic Development fund loan activity during the year ended June 30, 2008:

	Beginning Balance	Additions	Repayments	Adjustments	Ending Balance
WACO project	\$ 580,000	\$ -	\$ -	\$ (580,000)	\$ -
311 Armstrong Road	335,000	-	(335,000)	-	-
103 West Michigan Avenue	550,000	-	-	-	550,000
Big Sky Development	500,000	-	-	(500,000)	-
201 Fritz Keiper Boulevard	-	340,950	-	-	340,950
	<u>\$ 1,965,000</u>	<u>\$ 340,950</u>	<u>\$ (335,000)</u>	<u>\$ (1,080,000)</u>	<u>\$ 890,950</u>

The above adjustments represent loans receivable written off or forgiven by the management of the Economic Development Fund.

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